



THE CITY OF SAN DIEGO **MANAGER'S REPORT**

DATE ISSUED: June 13, 2003

REPORT NO. 03-132

ATTENTION: Honorable Mayor and City Council
Docket of June 16, 2003

SUBJECT: Fiscal Year 2004 Proposed San Diego Data Processing Corporation
Budget

SUMMARY:

Issue - Should the City Council approve the \$67,866,000 Fiscal Year 2004 Proposed San Diego Data Processing Corporation (SDDPC) Budget?

Manager's Recommendation – Approve the \$67,866,000 Fiscal Year 2004 Proposed SDDPC Budget with the understanding that SDDPC will provide \$1.8 million in revenue or savings to the City of San Diego.

Other Recommendations – None.

Fiscal Impact – The City of San Diego's Fiscal Year 2004 Proposed Budget includes \$1.8 million in projected revenue from SDDPC in anticipation of SDDPC generating a surplus ("budgeted transfer to the City") in that amount. Historically, SDDPC's budget has included \$500,000 in the budgetary transfer. The Proposed SDDPC Budget includes an additional \$1.3 million in one-time anticipated cost savings.

BACKGROUND

During the development of City agency budgets, City Manager staff works with City agencies in an effort to ensure that the budget requests are in conformance with various City policies. The review of the Fiscal Year 2004 SDDPC Proposed Budget was conducted by City staff with regard to proposed adjustments from Fiscal Year 2003 budgeted levels. This budget represents the anticipated level of funding for SDDPC operations in Fiscal Year 2004 and reflects the request for information technology services by the City of San Diego. Actual services are billed directly to City departments based on negotiated costs. Under terms of the City's Operating

Agreement with SDDPC, the Corporation may incur expenses in excess of its approved budget dependent upon available revenues.

The Operating Agreement also specifies that SDDPC's Proposed Annual Budget shall include a "Budgetary Transfer to City" line item. For Fiscal Year 2004, \$1.8 million is identified for transfer to the City. \$500,000 is attributable to general cost saving initiatives within SDDPC; \$1.3 million is attributable to one-time anticipated cost savings. City Manager staff and SDDPC staff have agreed to take positive steps to ensure \$1.8 million can be delivered, which will be formalized in an MOU to be signed by June 30, 2003. However, extraordinary conditions may occur that could materially affect the ability of SDDPC to deliver the full amount of the budgetary transfer. Steps are being included in the MOU to monitor and mitigate this potential impact.

DISCUSSION

Revenue

SDDPC's Total Operating Revenue budgeted is proposed to increase by \$1,229,000 or 2.2% in Fiscal Year 2004, mainly in the area of Network Access. Network Access is expanded to provide additional services for the City in Fiscal Year 2004. Revenue from Procured Services is proposed to decrease by \$9,817,000 or 45.2% in Fiscal Year 2004. "Procured Services" is a pass-thru revenue account for customer purchases of computer related equipment and software. Due to the anticipated reduction in pass-thru revenues, the \$67,866,000 Fiscal Year 2004 total proposed revenue represents an 11.2% decrease from the Fiscal Year 2003 final budget.

The following table exhibits a breakdown of Fiscal Year 2004 Proposed Revenue:

| Description | Fiscal Year 2003 Budgeted Revenue | Fiscal Year 2003 Estimated Actual | Fiscal Year 2004 Proposed Revenue |
|--|--|--|--|
| Labor | \$31,617,000 | \$29,734,000 | \$29,439,000 |
| Network Access | \$10,619,000 | \$12,365,000 | \$13,954,000 |
| Telecommunications | \$4,861,000 | \$5,331,000 | \$5,349,000 |
| Enterprise Infrastructure Project ¹ | \$469,000 | \$647,000 | \$0 |
| Data Center | \$5,726,000 | \$6,823,000 | \$6,491,000 |
| Procured Services Fees ² | \$1,433,000 | \$1,230,000 | \$731,000 |
| Interest/Gain on Fixed Assets ³ | \$10,000 | \$80,000 | \$0 |
| Total Operating Revenue | \$54,735,000 | \$56,210,000 | \$55,964,000 |
| Procured Services | \$21,719,000 | \$19,660,000 | \$11,902,000 |

| Description | Fiscal Year 2003 Budgeted Revenue | Fiscal Year 2003 Estimated Actual | Fiscal Year 2004 Proposed Revenue |
|--------------------|--|--|--|
| Gross Revenues | \$76,454,000 | \$75,870,000 | \$67,866,000 |

¹ Enterprise Infrastructure Project was completed in Fiscal Year 2003.

² Procured Services Fees represents an administrative charge (7.1% in Fiscal Year 2004) for handling of customer purchases and is used to pay for the costs of providing this service to customers.

³ This was a one-time gain on disposal of a fixed asset realized in Fiscal Year 2003.

The following table exhibits a comparative breakdown of revenue by customer category:

| Customer | FY 2003 Budgeted Revenue | FY 2004 Proposed Revenue |
|-------------------------|-------------------------------------|-------------------------------------|
| City-General Fund | \$26,789,000 | \$22,401,000 |
| City-Non-General Fund | \$45,739,000 | \$42,088,000 |
| ARJIS ¹ | \$2,807,560 | \$2,806,341 |
| County & Other Agencies | \$1,118,440 | \$569,659 |
| TOTAL | \$76,454,000 | \$67,866,000 |

¹ ARJIS is the computer network that integrates over 10,000 law-enforcement users Countywide and acts as a single database for crime-related information and data.

Expense

Salaries and Benefits

The \$32,430,000 Fiscal Year 2004 Proposed Budget for salaries and benefits represents a .5% increase from the Fiscal Year 2003 budget. This includes a 1% increase in merit and salary incentives. The Fiscal Year 2003 budget included 379.00 positions. The Fiscal Year 2004 budget is 339.00 positions, which reflects a reduction of 10.6% or 40.00 positions, and is a direct result of a decrease in labor revenues. SDDPC does not anticipate specific impacts to City customers. A significant increase in worker's compensation and medical expenses has contributed to the increase in this area of expense.

Non-Personnel Expenses

SDDPC's Total Operating Expense has decreased by \$223,000 or 1% in Fiscal Year 2004.

Expenses from the cost of Procured Services have decreased by 45.2% to \$11,902,000 in Fiscal Year 2004 due largely to City budget reduction efforts. “Procured Services” is a pass-thru revenue account for customer purchases of computer related equipment and software. The \$35,436,000 Fiscal Year 2004 Proposed Budget for non-personnel expenses represents an \$8,740,000 or a 19.8% decrease from the Fiscal Year 2003 Non-Personnel Expense Budget.

The following table exhibits the breakdown of Non-Personnel Expenses:

| Non-Personnel Expense Breakdown | | | |
|--|------------------------------------|--------------------------------------|--------------------------|
| Expense Category | Fiscal Year 2003 Budget | Fiscal Year 2004 Proposed | Increase/Decrease |
| Professional Services | \$1,163,000 | \$2,926,000 | \$1,763,000 |
| Equipment | \$2,177,000 | \$2,277,000 | \$100,000 |
| Software | \$3,127,000 | \$2,901,000 | (\$226,000) |
| Depreciation | \$6,950,000 | \$6,638,000 | (\$312,000) |
| Interest | \$120,000 | \$70,000 | (\$50,000) |
| Facility Expenses | \$2,161,000 | \$2,159,000 | (\$2,000) |
| Supplies | \$176,000 | \$219,000 | \$43,000 |
| Data Network / Telecommunications | \$4,846,000 | \$4,683,000 | (\$163,000) |
| Other | \$1,237,000 | \$1,161,000 | (\$76,000) |
| One Time Savings ¹ | \$0 | (\$1,300,000) | (\$1,300,000) |
| Total Operating Expenses | \$21,957,000 | \$21,734,000 | (\$223,000) |
| Cost of Procured Services | \$21,719,000 | \$11,902,000 | (\$9,817,000) |
| Return of Budgetary Surplus | \$500,000 | \$1,800,000 | \$1,300,000 |
| Total Expenses | \$44,176,000 | \$35,436,000 | (\$8,740,000) |

¹ These savings will be formalized in an MOU to be signed by June 30, 2003.

CONCLUSION

The \$67,866,000 Fiscal Year 2004 Proposed San Diego Data Processing Corporation Budget is submitted for your review.

Respectfully submitted,

Richard E. Wilken
Information Technology & Communications
Director

Lisa Irvine
Financial Management Director

Approved: Rey Arellano
Deputy City Manager & Chief Information Officer

WILKEN/pm